

Message Text

PAGE 01 STATE 207962
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PAGE 02 STATE 207962

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S E C R E T STATE 207962

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TAGS: EG, IS, PINR

SUBJECT: INTSUM 629 - AUGUST 16, 1978

LONDON FOR KINSOLVING

PARIS FOR NICHOLAS MURPHY

OTHER ADDRESSEES FOR CHIEFS OF MISSION

1. SAUDI ARABIA. SAUDI ARABIA HAS BEEN EXPLAINING ITS SUPPORT FOR THE TRILATERAL TALKS AT CAMP DAVID TO KEY ARAB LEADERS AND TRYING TO PERSUADE THEM TO WITHHOLD COMMENT ON THE MEETING BETWEEN SADAT AND BEGIN UNTIL THE OUTCOME IS KNOWN. INTELLIGENCE CHIEF PRINCE TURKI AL-FAYSAL RETURNED TO SAUDI ARABIA ON MONDAY AFTER VISITING JORDAN'S KING HUSSEIN, IRAQI STRONGMAN SADDAM HUSAYN, SYRIAN PRESIDENT ASSAD, AND PALESTINE LIBERATION ORGANIZATION CHIEF YASIR ARAFAT.

2. PRINCE TURKI TOLD AMBASSADOR WEST THAT HIS MISSION HAD BEEN TO EXPLAIN RIYADH'S POSITION TO THE OTHER ARABS AND TO CONVINCE THEM THAT PRESIDENT CARTER'S INVOLVEMENT AS A "PARTNER" IN THE NEGOTIATING PROCESS OUGHT TO BE RECOGNIZED AND APPRECIATED. HE ACKNOWLEDGED THAT THE SAUDI DECISION TO OFFER PUBLIC SUPPORT FOR THE MEETING HAD NOT BEEN AN
SECRET

PAGE 03 STATE 207962

EASY ONE.

3. TURKI ADMITTED THAT HIS ARGUMENTS HAD NOT MET WITH MUCH SUCCESS. HIS OVERALL IMPRESSION WAS THAT THE ARABS FELT THAT LITTLE WOULD BE ACCOMPLISHED AT CAMP DAVID. HE SAID THE GENERAL FEELING IS THAT, DESPITE UNANIMOUSLY HIGH REGARD FOR PRESIDENT CARTER'S SINCERITY, THE US WOULD NOT IN THE FINAL ANALYSIS HAVE THE WILL TO EXERT THE NECESSARY PRESSURE ON ISRAEL TO ACHIEVE THE TWO BASIC CONDITIONS FOR PEACE--WITHDRAWAL FROM OCCUPIED TERRITORIES AND PALESTINIAN SELF-DETERMINATION.

4. THE SAUDI LEADER DID CLAIM TO HAVE PERSUADED ASSAD NOT TO SAY ANYTHING TO DETRACT FROM THE SUMMIT AND TO TAKE A "WAIT-AND-SEE" POSITION ON THE TALKS. THE GOVERNMENT-CONTROLLED SYRIAN PRESS, HOWEVER, HAS STRONGLY CRITICIZED THE CAMP DAVID MEETING. YASIR ARAFAT REPORTEDLY AGREED PERSONALLY TO REFRAIN FROM FURTHER REMARKS ON THE SUMMIT BUT SAID HE WOULD HAVE TO TAKE UP THE MATTER OF THE PLO'S OFFICIAL POSITION WITH THE ORGANIZATION'S CENTRAL COMMITTEE.

5. EMBASSY JIDDA COMMENTS THAT THE SAUDIS WERE EVIDENTLY STUNG BY ACCUSATIONS THAT THEY WERE NOT SUPPORTIVE OF THE PEACE PROCESS AND HAVE STRONGLY SUPPORTED CURRENT US EFFORTS. IF CAMP DAVID FAILS, THEY WANT SOMEONE OTHER THAN THEMSELVES TO BE BLAMED. (CONFIDENTIAL)

6. USSR. MOSCOW'S INITIAL ATTACKS ON THE PROPOSED CAMP DAVID MEETING HIGHLIGHT BURGEONING SOVIET FEARS OF AN EXPANDED US MILITARY PRESENCE IN THE MIDDLE EAST AS PART OF AN EGYPTIAN-ISRAELI AGREEMENT. THE CURRENT PROPAGANDA LINE INCLUDES MOSCOW'S STANDARD ARGUMENTS AGAINST A UNILATERAL US ROLE IN THE PEACE PROCESS:

(A) SEPARATE DEALS ONLY COMPLICATE ACHIEVEMENT OF A
SECRET

PAGE 04 STATE 207962

COMPREHENSIVE PEACE SETTLEMENT.

(B) IMPERIALISTS AND ZIONISTS ARE SEEKING TO "REEXAMINE" THE SECURITY COUNCIL RESOLUTIONS WHICH CALL FOR ISRAELI WITHDRAWAL FROM ALL OCCUPIED ARAB TERRITORY.

(C) SADAT IS CAPITULATING TO ISRAELI INTRANSIGENCE AND US PRESSURE.

7. MORE SIGNIFICANT, THE LINE STRESSES THAT THE MOST THE CAMP DAVID MEETING COULD ACHIEVE WOULD BE ANOTHER SEPARATE, SINAI-TYPE ARRANGEMENT WITH A POSSIBLE US MILITARY INVOLVEMENT. CITING PRESIDENT CARTER'S INTERVIEW WITH US NEWS AND WORLD REPORT, TASS (AUGUST 14) CLAIMED THAT WASHINGTON'S EFFORTS TO APPEAR AS "RULER OF THE DESTINIES OF THE PEOPLES OF THE NEAR EAST" ARE AIMED AT BOLSTERING ITS "SHAKEN POSITION" IN THE REGION, EVEN IF IT MEANS SENDING US TROOPS TO GUARANTEE AN EGYPTIAN-ISRAELI AGREEMENT. EARLIER (AUGUST 9), TASS REFERRED TO BRZEZINSKI'S COMMENTS TO THE PRESS ON THE TOPIC AS "INTERVENTIONIST PLANS."

8. SOVIET SENSITIVITY TO US MILITARY INVOLVEMENT IS REMINISCENT OF MOSCOW'S REACTION IN 1975 TO THE CREATION OF THE SINAI FIELD MISSION TO MONITOR SINAI II. THEN, AS NOW, THE POLEMICS DIRECTED AGAINST THIS AGREEMENT REFLECTED FAR GREATER SOVIET CONCERN OVER THE POSSIBILITY OF AN EXPANDED US MILITARY PRESENCE IN THE MIDDLE EAST THAN OVER THE AGREEMENT AS SUCH OR ITS SPECIFIC PROVISIONS. (LIMITED OFFICIAL USE)

9. SYRIA-ISRAEL. THE SYRIANS AND THE ISRAELIS ARE LOCKED IN CONFLICT OVER THE DESTINY OF LEBANON. OVER THE
SECRET

PAGE 05 STATE 207962

PAST FOUR YEARS EACH HAS GREATLY INCREASED ITS DIRECT INVOLVEMENT IN LEBANON. AND BOTH VIEW THE STRUGGLE AS BASIC TO THEIR NATIONAL SECURITY.

10. SOME ISRAELIS BELIEVE THAT SYRIA HAS A MASTER PLAN TO DOMINATE LEBANON, OTHERS THAT SYRIAN INVOLVEMENT WILL LEAD TO SUCH DOMINATION A DAY AT A TIME. THE FINAL OUTCOME IN EITHER CASE, UNLESS ISRAEL PREVENTS IT, WILL BE THE SAME--PAX SYRIANICA IN LEBANON.

11. AT THE SAME TIME ISRAELIS DO NOT SEE SYRIA'S EFFORTS TO BREAK THE CHRISTIAN MILITIAS AS AN EFFORT TO ELIMINATE A MAJOR OBSTACLE TO THE REUNIFICATION OF LEBANON AND THE REASSERTION NATIONWIDE AUTHORITY OF THE CENTRAL GOVERNMENT, AFTER WHICH THE SYRIANS WILL RETURN HOME AND TAKE THEIR INFLUENCE WITH THEM. MOST ISRAELIS PROBABLY REMAIN CONVINCED THAT SYRIA'S AIM IS TO DESTROY THE MAJOR OBSTACLE TO DAMASCUS' HEGEMONY OVER LEBANON.

12. THOUGHTFUL ISRAELIS DO NOT BELIEVE THAT THE SYRIANS WANT TO ANNEX LEBANON OR TO MASSACRE THE CHRISTIANS. MOREOVER, THEY WOULD LIKELY CONCEDE THAT THE SYRIANS WOULD NOT WANT A RADICAL MUSLIM/PALESTINIAN STATE IN SUCH A STRATEGIC AREA. NEVERTHELESS, THE ISRAELIS THINK THAT A CHANGE IN THE FUNDAMENTAL MAKEUP OF THE LEBANESE STATE IN FAVOR OF SYRIA WOULD UPSET THE REGIONAL STRATEGIC BALANCE. A HOSTILE, SYRIAN-DOMINATED LEBANON IN THE NORTH WOULD OPEN POPULATED AREAS OF ISRAEL TO POTENTIAL DANGER. WHILE AT THE MOMENT THE SYRIANS HAVE BEEN MILITARILY WEAKENED BY THEIR INVOLVEMENT IN LEBANON, OVER THE LONG TERM THEIR MILITARY POSITION WILL BE STRENGTHENED.

13. THE ISRAELIS ALSO VIEW SYRIAN TACTICS AS REINFORCING THEIR GENERAL VIEW OF THE SYRIANS. THEY BELIEVE THAT THE INDISCRIMINATE SHELLING OF CHRISTIAN BEIRUT IS INTENDED
SECRET

PAGE 06 STATE 207962

TO INTIMIDATE THE POPULATION AND FORCE THEM TO ACCEPT SYRIAN DOMINATION. WITH REGARD TO THE LEBANESE ARMY BATTALION AT KAWKABA, MOST ISRAELIS BELIEVE THAT IT IS SIMPLY A SURROGATE OF THE SYRIANS OR REPRESENTS THE OLD PRO-PALESTINIAN, ANTI-GOVERNMENT LEBANESE ARAB ARMY (LAA).
(SECRET)

14. EGYPT. EGYPT'S SUCCESS IN BOOSTING OIL OUTPUT IN RECENT YEARS REFLECTS THE FAVORABLE FINANCIAL TERMS IT HAS GRANTED TO FOREIGN OIL COMPANIES. EGYPT HOPES INCREASED OIL EXPORTS DURING THE NEXT SEVERAL YEARS WILL REDUCE ITS DEPENDENCE ON FOREIGN AID, BUT ITS GOAL OF PRODUCING 1 MILLION BARRELS PER DAY BY 1980 HAS ALREADY BEEN SET BACK AND MAY BE FURTHER AFFECTED BY SUCH IM-PONDERABLES AS THE ARAB-ISRAELI CONFLICT.

15. AN EGYPTIAN DECISION IN 1973 TO MAKE LARGE AREAS AVAILABLE FOR FOREIGN EXPLORATION AND DEVELOPMENT UNDER

PRODUCTION-SHARING AGREEMENTS ATTRACTED ABOUT 30 OIL COMPANIES. EGYPT WAS CONCERNED ABOUT PRODUCTION DECLINES AT THE EL MORGAN FIELD IN THE GULF OF SUEZ--THEN EGYPT'S LARGEST PRODUCING FIELD--AND CONCLUDED THAT FOREIGN EXPERTISE, EQUIPMENT, AND FINANCIAL RESOURCES WOULD BE REQUIRED TO REVERSE THE DOWNWARD TREND. BY THE END OF 1977, EGYPT HAD SIGNED 46 AGREEMENTS COVERING 480,000 SQUARE KILOMETERS, INCLUDING ALL REMAINING OFFSHORE TRACTS IN THE GULF OF SUEZ.

16. FOREIGN FIRMS CONSIDER THE PRODUCTION-SHARING AGREEMENTS VERY ADVANTAGEOUS. THE FIRMS RECEIVE A SHARE OF PRODUCTION AFTER COSTS REGARDLESS OF WHAT HAPPENS TO OIL PRICES. IF OIL PRICES RISE, THE VALUE OF A COMPANY'S SHARE ALSO RISES, UNENCUMBERED BY TAXES OR ROYALTIES; IF
SECRET

PAGE 07 STATE 207962

OPERATING COSTS RISE, HOWEVER, THE FIRM DOES NOT HAVE TO RESORT TO LENGTHY NEGOTIATIONS TO RECOVER ITS INCREASED EXPENSES. AN ANALYSIS OF RETURNS TO AMOCO, THE MOST IMPORTANT FOREIGN INVESTOR, INDICATES THAT ITS EARNINGS PER BARREL WERE HIGHER THAN THOSE OF FOREIGN COMPANIES OPERATING IN NEIGHBORING MIDDLE EASTERN COUNTRIES.

17. THE MAJOR ADVANTAGE OF EGYPT FROM THESE AGREEMENTS IS THAT IT DOES NOT BEAR ANY OF THE FINANCIAL RISKS OF EXPLORATION AND DOES NOT HAVE TO FINANCE DEVELOPMENT IF OIL IS FOUND. THE AGREEMENTS SIGNED FROM 1973 THROUGH 1977 ALSO YIELDED SIGNATURE BONUSES OF \$95 MILLION AND PROVIDED GUARANTEES THAT FIRMS WOULD INVEST \$826 MILLION FOR EXPLORATION.

18. THE AGREEMENTS AND THE CESSATION OF HOSTILITIES BETWEEN EGYPT AND ISRAEL BROUGHT A STEADY INCREASE IN FOREIGN EXPLORATION EXPENDITURES AFTER 1974; THESE TOTALED \$622 MILLION FROM 1974 THROUGH 1977. SIMILARLY, EXPLORATORY DRILLING ACTIVITY BEGAN RISING IN 1975, AND PRODUCTION CLIMBED FROM 145,000 BARRELS PER DAY IN 1974 TO 420,000 BARRELS PER DAY IN 1977.

19. DEVELOPMENT OF NEW DISCOVERIES AND INVESTMENT IN EXISTING FIELDS WILL BOOST EGYPTIAN OIL PRODUCTION IN THE NEXT SEVERAL YEARS. CAIRO ORIGINALLY HOPED TO PRODUCE 1 MILLION BARRELS OF OIL DAILY IN 1980, BUT THIS GOAL HAS BEEN SET BACK TO 1982 AND MAY BE DIFFICULT TO ACHIEVE EVEN BY THEN. THE KEY DETERMINANTS WILL BE THE QUANTITY OF NEW DISCOVERIES, THE RATE OF DEVELOPMENT, AND THE STATUS OF THE ARAB-ISRAELI DISPUTE. ISRAEL STILL CONTROLS PARTS OF THE GULF OF SUEZ WHERE SOME OF THE MOST PROMISING OIL CONCESSIONS ARE LOCATED. (CONFIDENTIAL) CHRISTOPHER

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